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SUBJECT: The Japan Economic Scope - June 7, 2007 - Part 1

Sensitive but unclassified. Please protect accordingly.

[1](#)1. (U) This cable contains part one of Japan Economic Scope from
June 7,
[1](#)2007.

2.(SBU) Table of Contents

- [1](#)3. VFM Yachi on FTA, WTO, Agriculture
- [1](#)4. Bilateral Investment Working Group Business Outreach; FTA,
Transparency, DHS
- [1](#)5. Asia Pacific Business Leaders Discussed Regional Economic
Issues
- [1](#)6. Reappointment of JFTC Chairman Moves to Diet
- [1](#)7. Regulatory Reform Report to Leaders Released
- [1](#)8. Release of 2007 Investment Report to Leaders
- [1](#)9. The "Labor Big Bang," Reform, and the CEFP
- [1](#)10. New IPR Promotion Strategy Eases Rules in Some Areas, Beefs-
up Enforcement in Others
- [1](#)11. Conference on Coordinated Energy Security Measures (U)
- [1](#)12. Official Development Assistance (ODA) and Emission Trading
- [1](#)13. Mishandling of JPEX Trade Information Raises Concerns
- [1](#)14. Akagi Named Agriculture Minister after Predecessor's Suicide
- [1](#)15. New Agriculture Minister Wants Active Role for Japan in Doha
Talks
- [1](#)16. New Ag Minister Echoes Predecessor's Cautious U.S. Beef
Position
- [1](#)17. CPRR Committee Report Has Little to Say about Agricultural
Reform
- [1](#)18. LDP Ag Caucus Not Enthusiastic about Calls for Reform,
Accelerated Trade Liberalization
- [1](#)19. U.S. -- Japan FTA Discussed at Tokyo American Center Event

[1](#)3. (SBU) VFM Yachi on FTA, WTO, Agriculture

On June 1, Ambassador Schieffer and Vice Foreign Minister Yachi
discussed a range of bilateral issues, including thoughts about a
possible bilateral FTA, the WTO, and agricultural trade. See
Tokyo 2481 for details. (ECON: Marc Dillard)

[1](#)4. (SBU) Bilateral Investment Working Group Business Outreach;
FTA, Transparency, DHS

The Investment Working Group (IWG) of the U.S.-Japan Investment
Initiative met on May 28 in back-to-back sessions with
representatives of the American Chamber of Commerce in Japan

(ACCJ), Nippon Keidanren and the U.S.-Japan Business Council (USJBC) to hear business views on the overall investment climate in each country and the adequacy of existing provisions in each country's bilateral investment agreements. The IWG hopes this will be the first in a series of meetings with the private sector that can identify future areas of work.

Although not every issue that the private sector raised falls within the scope of the Initiative's work, much of the discussion in all three sessions focused on issues already taken up by the IWG or in other bilateral talks.

ACCJ members emphasized the importance of transparency in regulatory rule-making, characterizing Japan's current system as one of "strict enforcement of vague regulations." They recommended the transparency chapter of the recent KORUS agreement as a model for a future U.S.-Japan FTA.

ACCJ also pushed for expanded mutual recognition agreements, particularly in the areas of medical devices and renewable energy and urged the IWG to look at expanding the types of M&A transactions available in Japan. In addition to encouraging more FDI, an expanded merger regime could provide a solution to the problem of Article 821.

Keidanren staff explained the Federation's formal position in favor of a bilateral study of a U.S.-Japan FTA. Member companies urged the two governments to ensure that a future FTA had workable rules of origin. Several speakers commended the NAFTA agreement as a model in this area.

Keidanren members expressed deep concerns about DHS's "24-hour rule," which they claimed added two days to average shipping

TOKYO 00002599 002 OF 007

times. Many Japanese companies, they noted, worked almost 10 years to improve their logistics systems to reduce shipping times by that same amount and those efforts were now all but wasted. USJBC echoed Keidanren's concerns about the 24-hour rule. In formulating new cargo security rules, they urged governments to take a broad perspective, seek greater harmonization of IT systems and build a common platform for collection and analysis of critical customs information.

The Council also encouraged the IWG to look for ways to improve Japan's slow and cumbersome process for regulatory approval of drugs and medical devices, an area in which U.S. and Japanese firms have similar views.

Council members noted the need for greater flexibility in labor markets as a way to increase productivity and enhance business competitiveness. They expressed disappointment that the Japanese cabinet's recent proposal to expand the white-collar exemption had been postponed "for political reasons" and urged both governments to keep working in this area. (ECON: David DiGiovanna)

15. (U) Asia Pacific Business Leaders Discussed Regional Economic Issues

The APEC Business Advisory Council (ABAC), the permanent senior business sector advisory council for APEC member economies, held its second meeting for 2007 in Tokyo between May 30 and June 1. ABAC discussions focused on further advancement of regional economic integration, businesses' response to climate change and enhanced energy security, including conservation and efficiency measures. ABAC members also noted that they still viewed successful conclusion of the Doha Development Agenda as critical for global growth and expressed concern over the delay in the negotiation.

ABAC will finalize its Report to APEC Economic Leaders by the end of July, and present it to the leaders in August. For the SOM III and Trade Ministerial (MRT) Meeting, an abridged version of the Report will be submitted.

In the meantime, ABAC Japan informally decided to appoint Yoshihiro Watanabe, Senior Managing Director of the Mitsubishi UFJ Financial Group, as a new member. Watanabe will succeed Yasuo Kanzaki, Special Advisor of Nikko Citigroup, who will end his three-year term after the APEC Finance Ministers' Meeting in early August. (ECON: Satoshi Hattori)

16. (SBU) Reappointment of JFTC Chairman Moves to Diet

The LDP has approved the Prime Minister's decision to reappoint Japan Fair Trade Commission Kazuhiko Takeshima for another five-year term, according to press reports.

Action on Takeshima's reappointment now moves to the Diet, where he will need approval from both houses before the end of the regular session this month. During his tenure, Takeshima shepherded the 2005 amendments to the Antimonopoly Act that substantially strengthened the powers of the JFTC by increasing the rate of punitive surcharges that the Commission could apply to cartel members, instituting a leniency system that encouraged companies to bring forward evidence of bid-rigging activities, and allowing the JFTC itself to receive and execute search warrants.

His reappointment signals Abe Administration determination to support the JFTC's role as a robust competition authority. Takeshima will also now be available to advocate for even great powers for the JFTC during the legislatively mandated review of the 2005 Antimonopoly Act amendments by the Diet in the regular session that begins in January 2008. (ECON: Chris Wurzel)

17. (SBU) Regulatory Reform Report to Leaders Released (

Long negotiations concluded with Japan and the United States issuing a 76-page Report to the Leaders June 6 before the meeting of President Bush and Prime Minister Abe at the G-8 Summit in Germany. It is the sixth annual report the two countries have

TOKYO 00002599 003 OF 007

completed since launching their Regulatory Reform and Competition Policy Initiative in 2001.

Highlights of steps that have been taken or commitments for future steps made by Japan include:

Implementing plans to speed introduction of new drugs through measures such as more than doubling the number of drug reviewers; Opening new investment opportunities by permitting triangular mergers using foreign shares and monitoring the effectiveness of related tax deferral conditions;

Ensuring that Japan Post's new financial entities meet the same obligations and standards as those of private financial institutions when they sell new or altered financial products; For more information, click to see the Sixth Report to the Leaders and supporting fact sheets. (ECON: Nicholas Hill based on the USTR fact sheets)

18. (U) Release of 2007 Investment Report to Leaders

The 2007 Report to Leaders of the Bilateral Investment Initiative was released on June 6.

In addition to updates on discussions of U.S. and Japanese investment concerns, this year's report also summarizes the results of the February meeting of experts on investment agreements at which the two sides exchanged their views and experiences on their respective investment agreements. Please click here to view the whole report. (ECON: David DiGiovanna)

19. (SBU) The "Labor Big Bang," Reform, and the CEFP

Council on Economic and Fiscal Policy (CEFP) private sector member Naohiro Yashiro recently shared with us his outlook on major labor reform proposals, the six labor bills submitted to the current Diet session, reform plans after the Upper House elections, and the inner workings of the CEFP. See Tokyo 2464 for details. (ECON: Marc Dillard)

¶10. (U) New IPR Promotion Strategy Eases Rules in Some Areas, Beefs-up Enforcement in Others

The IPR Promotion Program for 2007 adopted by the Cabinet on June 1 stresses a new focus on four priority areas: the environment, medical services, IT/telecommunications, and nanotechnology. The Intellectual Property Strategy Headquarters' will develop specific strategies for each of these areas in the next year.

The new program highlights the importance of nurturing and promoting Japanese content abroad, from anime to food.

The program recommends easing copyright laws to promote internet TV programming and to enable Japanese companies to develop search engines.

The program envisions a comprehensive international standards strategy so that Japanese industrial products become global standards.

On the enforcement side, the program endorses speedy adoption of the Anti-Counterfeiting Trade Agreement (ACTA), measures to prevent online piracy of movies and music and a ban on advertisement for pirated products. (ECON: Marilyn Eresefsky)

¶11. (U) Conference on Coordinated Energy Security Measures

On April 17-19 the Asia-Pacific Center for Security Studies (APCSS) and the Japan Institute of International Affairs (a think-tank affiliated with the Japanese Ministry of Foreign Affairs) co-hosted the "Energy Security Cooperation in the Asia-Pacific Conference," which was attended by 41 participants/observers from Australia, China, Japan, Kazakhstan, Lithuania, Panama, ROK, Russia, and the United States.

The conference was conducted at the initiative of U.S. Ambassador Thomas Schieffer to improve cooperation on energy security issues in the Asia-Pacific region and establish a forum

TOKYO 00002599 004 OF 007

where collective measures can be taken to promote energy security.

Specific objectives included:

Develop a framework for characterizing dimensions of Asia-Pacific energy security; geological, technological, political, economic and environmental;

Identify areas for coordinated institutional and policy action;

Re-examine existing, and formulate fresh, regional approaches to energy management for better multilateral governance; and
Articulate effective strategies and instruments for concerted and sustained cooperative action.

In his keynote address, Ambassador Schieffer underscored that no issue was as important to Asia as the development of coordinated policies on energy and the environment. Further, that this forum recognized that energy -- its security, stability and deliverability -- drives much of our respective foreign policies, thus it was vital that we explore new ways to look beyond our differences toward solutions.

Working groups in the conference produced a set of policy recommendations on energy transportation, nuclear energy management, and investment and conservation, as well as voicing

support for a strategic energy dialogue and the use of regional forums/organizations to promote energy cooperation. A copy of the executive summary can be obtained from Ayanna Hobbs. (EST: Ayanna Hobbs)

¶12. (SBU) Official Development Assistance (ODA) and Emission Trading

A wind-powered electric generation plant, currently under construction in Egypt's Red Sea region through a 13.5 billion yen JBIC loan, will likely be approved as an ODA-supported Clean Development Mechanism (CDM) project to help reduce greenhouse gas emissions, according to a MOFA contact.

As part of its national strategy to cope with global warming, Japan is seeking new long-term financial mechanisms to combat global warming in developing countries, and the OECD approved in 2004 the use of ODA in the transfer of emission trading rights under the condition that the country that offers ODA will not directly acquire the rights. (A private company from that country, however, can be the purchaser.)

Our MOFA contact verified that the Japan Bank for International Cooperation (JBIC) has submitted an application to the CDM Executive Board under the United Nations Framework Convention on Climate Change (UNFCCC), and he believes the application is very likely to be officially approved at the CDM Executive Board meeting on June 20. (ECON: Eriko Marks)

¶13. (SBU) Mishandling of JPEX Trade Information Raises Concerns

A June 1 press report claiming that the Japan Electric Power Exchange (JEPX), which was established in 2005 to facilitate competition in the electricity market, inappropriately leaked trade information is misleading, according to a contact in the Electricity Market Division at the Agency for Natural Resources and Energy (ANRE).

The article claimed that data on wholesale trading, including how much, when and from whom firms bought electricity, was sent to businesses uninvolved in the transaction and could give an advantage to major electricity companies while hindering new market entrants, and that METI will issue a written warning to JEPX and major power companies in connection with a violation of the Electricity Enterprises Law.

Our ANRE source explained that, under the new electricity regime, if electricity in the Kansai region is sold to the Kanto region, it is transmitted through power cables owned by Kansai Electric Power, Chubu Electric Power and Tokyo Electric Power and each company receives relevant trading information from JEPX. The incident described in the press involved JEPX sending the

TOKYO 00002599 005 OF 007

information to additional companies uninvolved in the transaction.

The ANRE official declared that this was not a violation of the Electricity Enterprises Law. He said, however, that ANRE has asked JEPX to improve its control of information and has also notified companies participating in the exchange of this request. JEPX has promised to update its computer system by the end of June.

On a related note, the press article speculated that the Japanese practice of managing power generation, transmission and retail within one company -- which differs from the United States and Europe -- could come under fire again, but our ANRE source disagreed. After the blackout in California in 2001, he said, the argument for separating the three divisions disappeared out of concern for ensuring a stable supply of electricity. (ECON: Eriko Marks)

¶14. (SBU) Akagi Named Agriculture Minister after Predecessor's

Suicide

After a difficult search, Norihiko Akagi was named Japan's new Agriculture Minister on June 1. The 48 year-old, six-term Diet member from Ibaraki Prefecture replaces Toshikatsu Matsuoka, who committed suicide days earlier in the face of growing corruption allegations.

Young by the standards of Japanese cabinet ministers, Akagi is not well known to the public. In explaining the appointment on June 1, Chief Cabinet Secretary Shiozaki told reporters that PM Abe selected Akagi in part because "he understands Japan's agricultural policies and Japan's place in the world," and would be effective in representing Japan's national interests. Speaking to the press after his appointment, Akagi acknowledged that he was arriving in office at a critical moment. He told reporters he would basically follow the "footsteps" of his predecessor, Matsuoka, and do his best to develop a strong farming sector.

The new minister added that he also wanted to follow climate change issues closely. (ECON: Nicholas Hill)

¶15. (SBU) New Agriculture Minister Wants Active Role for Japan in Doha Talks

New Agriculture Minister Akagi said he was prepared to play a role in WTO talks, and offered to fly to Europe where key WTO member states -- the United States, EU, India, and Brazil -- are set to meet on June 19.

Echoing a theme we have heard frequently from other GOJ officials, Akagi told reporters on June 5 that "Negotiations without Japan, the world's largest food importer, are by no means acceptable." Akagi likened his participation in Doha negotiations at this stage to jumping on an express train charging along at full speed just before the final corner. Akagi told reporters that WTO talks and FTA talks should play a complementary role in Japan's trade policy.

Akagi is known to be wary about offering substantial liberalization in Japan's current economic partnership (EPA) talks with Australia.

In his first days in office, Akagi spoke with Agriculture Secretary Johanns and U.S. Trade Representative Schwab.

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For more on Akagi, including his most recent meeting with an Embassy official, please see Tokyo 2463. (ECON: Nicholas Hill)

¶16. (SBU) New Ag Minister Echoes Predecessor's Cautious U.S. Beef Position

The United States and Japan continue to work through some difficult issues before Japan will be in a position to open its market further to U.S. beef, but there is no reason to expect a big push from incoming Agriculture Minister Akagi.

Moments after he got off the phone with Agriculture Secretary

TOKYO 00002599 006 OF 007

Johanns on June 5, the Agriculture Ministry released a press statement about their discussion of the beef issue. Akagi told Johanns that Japan was "in no hurry" to ease restrictions on U.S. beef to make them consistent with those recommended by the World Animal Health Organization last month.

Meanwhile, at the working level, the two sides continue to follow up on the audits that Japanese inspectors conducted at U.S. slaughter facilities in late May, with a joint statement expected to be issued around June 15.

Separately, the Japanese press has reported the story out of Seoul that the Korean government has shut down beef trade with the United States over some violations detected in the bilateral export agreement. So far, the Embassy has not been contacted yet by GOJ officials seeking more information about the incident. (ECON: Nicholas Hill)

¶17. (SBU) CPRR Committee Report Has Little to Say about Agricultural Reform

The Prime Minister's Council for the Promotion of Regulatory Reform had relatively little to say about agricultural reform. Released on May 30, the Council's report indicates that a number of agriculture-related issues will be taken up in the future.

This is consistent with what a CPRR member told us on May 25, when he indicated that a number of difficult agricultural issues would be revisited after Upper House elections in July.

The CPRR Report indicated that the Council intends to take up "in the future" farmland reform and other policies designed to boost productivity in the farm sector.

These include the operations of Japan Agriculture (JA), the large institution that serves as the lobbying arm of Japan's small farmers. JA has been accused of wielding too much market power over key aspects of farmers' operations. (ECON: Nicholas Hill/Ryoko Nakano)

¶18. (SBU) LDP Ag Caucus Not Enthusiastic about Calls for Reform, Accelerated Trade Liberalization

Japan should not "succumb to this overzealousness by academics gripped with liberalization fever." According to the Japan Agricultural News, that is how LDP agriculture Diet members reacted to the recommendations of the CEFP working group looking at Japan's agriculture and FTA policies.

When the LDP Policy Research Council convened on June 5th to discuss the draft Basic Policies Report of the Council on Economic and Fiscal Policy, a representative for the agriculture Diet members reportedly expressed concern about draft language on joint FTA studies between U.S. and Japan, as well as those in favor of starting preparations for an EU-Japan FTA.

The members were wary about across-the-board cuts in tariff rates ranging from five to ten percent and the abolishment of the gate price system (e.g. currently used for pork), in which importers must pay the difference between the shipment's value and the minimum price set by the government

A broader group of Diet members, coming from three different agriculture-related committees, also expressed concerns when they met on June 6 to discuss the CEFP working group recommendations (covered in earlier editions of the Scope).

Absent stronger political backing, the draft Basic Policies Report under consideration does not cover especially sensitive proposals -- including allowing stock for land swaps to encourage land consolidation; reviewing farmland tax policies; and facilitating more foreign guest workers for the farm sector.

Moreover, Agriculture Minister Akagi said in the Diet on June 6 that the CEFP Basic Policies Report should not include any text that offered any "prejudgments" on WTO and EPA negotiations. The decision on the final Basic Policies Report is expected to be made by June 19.

TOKYO 00002599 007 OF 007

The Agriculture Ministry (MAFF) is expected to issue its own report on agricultural reform in the fall. (ECON: Nicholas Hill/Ryoko Nakano)

119. (U) U.S. -- Japan FTA Discussed at Tokyo American Center
Event

A free trade agreement between the United States and Japan would boost combined GDP by about \$125 billion a year and create momentum to a broader APEC-wide free trade framework. That is what Scott Bradford, Associate Economics Professor at Brigham Young University, said at an event organized at the Tokyo American Center on June 6.

The prospect that the two countries would launch talks, Bradford said, hinged on a number of factors, including whether Congress passes the U.S. -- Korea FTA and whether Japan and Australia can conclude their own ambitious deal.

Another factor that will affect the debate is whether Korea and the European Union make headway on their own talks. Because trade barriers are higher in the EU than in the United States, Bradford said, a Korea -- EU deal would be an even bigger concern for Japan's business community.

Bradford acknowledged that a bilateral deal could hurt some developing countries. At the moment, Japan's trade patterns are more reliant on developing countries than are those of most other rich countries.

Responding to a question from a Keidanren official, Bradford said that while there is interest in the U.S. business community for an FTA with Japan, interest in Congress was lukewarm, particularly among the Democrats, who are more protectionist in orientation.

The same Keidanren official asked what affect a U.S. -- Japan FTA would have on the broader goal of an APEC-wide FTA. Bradford said that it could serve as a stepping stone for some sort of regional framework.

Bradford emphasized that a successful Doha deal should remain the number one trade priority for the United States. (ECON: Ryoko Nakano)
SCHIEFFER